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SUBJECT: MAC'S "ACTIVE MANAGEMENT" CLARIFICATION STILL
LACKS DETAILS

REF: A. TAIPEI 85

[1](#)B. TAIPEI 220

[1](#)C. TAIPEI 543

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Summary

[1](#)1. (C) On March 22, Mainland Affairs Council (MAC) Chairman Joseph Wu detailed the mechanisms to be used in implementing the "active management, effective opening" policy for cross-Straits economic activities. The mechanisms are divided into four categories: personnel, agriculture, economics and finance. Perhaps the most important mechanism in the statement is the addition of a "policy examination" (zhengce mian shencha) during the investment approval process. The "policy examination" may be used primarily for political purposes, in which case the government may be willing to see uncertainty about the approval requirements for investment in the PRC persist even after further details are released. End summary.

[1](#)2. (U) Mainland Affairs Council (MAC) Chairman Joseph Wu held a press conference on March 22 to release a document detailing the mechanisms to be used in implementing the "active management, effective opening" policy for cross-Straits economic activities. This is the first effort by the Chen administration to provide a concrete and comprehensive explanation of the new policy. However, many of the mechanisms are still unclear. MAC promised to release more specific measures and regulations that will support these mechanisms by June 30. The latest package is divided into four categories: economics, finance, personnel, and agriculture.

Economics - "Policy Examination" for Investment

[1](#)3. (SBU) The economic mechanisms deal almost exclusively with investment and technology transfer. Perhaps the most important mechanism in the statement adds new steps to the approval process for large or technologically sensitive investment proposals. Taiwan authorities will begin conducting a "policy examination" (zhengce mian shencha)

during the approval process. In some cases, the Ministry of Economic Affairs (MOEA) will negotiate with the applicant and secure commitments regarding further investment in Taiwan, financial planning, and equipment and technology transfer. However, details of these new procedures remain unclear.

¶4. (U) Other investment-related mechanisms increase rewards for information on illegal investments and make it possible for Taiwan authorities to monitor and supervise activities in the Mainland after investments have been approved. The mechanisms spell out stricter reporting rules that require firms to report when senior executives engage in their own investments and other commercial activities in the PRC. These increased disclosure requirements appear to be aimed directly at preventing cases like United Microelectronics Corp.'s (UMC) relationship with He Jian, a PRC semiconductor foundry (refs A and C). In addition, MAC, MOEA, and the Financial Supervisory Commission will create a shared database of investment in the PRC to ensure that separate investment projects undertaken by a single firm are tracked together.

¶5. (SBU) The technology transfer mechanisms are among the least specific in the statement. One calls for MOEA, the National Science Council and Ministry of National Defense to reach an agreement on mechanisms to control technology transfer and implement them. Two other mechanisms call for strengthened procedures in accordance with the Sensitive Technology Protection Law, which is currently under consideration at the Legislative Yuan.

Finance - Capital Flows, PRC Offices, and Credit Risk

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¶6. (U) The financial mechanisms fall into three subgroups. The first addresses management of capital flows. It includes a mechanism calling for Taiwan to sign bilateral memoranda of understanding to share information on capital flows with countries that are major destinations for Taiwan investment. (Note: At this point, there is no indication that absence of such an agreement will lead to restrictions of capital flows. End note.)

¶7. (U) The second subgroup aims to strengthen the supervision of the offices of Taiwan financial institutions in the PRC and Hong Kong. The Investment Commission and FSC will integrate their approval and inspection systems for banks, securities firms, and insurance companies. In addition, Taiwan authorities will develop a mechanism for inspecting the PRC and Hong Kong offices of financial institutions.

¶8. (SBU) The last financial subgroup seeks to strengthen the risk management of Taiwan financial institutions in the Mainland. There are very few concrete mechanisms proposed in this subgroup. However, one mechanism asks the FSC to report regularly on credit approvals and risk management by Taiwan institutions operating in the Mainland.

Personnel - Stronger Enforcement, No New Restrictions

¶9. (U) The personnel mechanisms would improve Taiwan agencies ability to enforce existing regulations on Mainland visitors. The Ministry of Transportation and Communications' Tourism Bureau will create a database to track all Mainland visitors to Taiwan. The Aviation Police will assist the Coast Guard to improve their night patrol capacity. The Ministry of Interior Police Bureau will also increase rewards for assistance in the capture of illegal Mainland visitors. Once tourism from the PRC is opened more fully, Taiwan will begin charging higher deposits for certain visitors and raise fines for overstays. In

addition, two mechanisms will increase manpower available for examining entry-permit applications, particularly for Mainland spouses of Taiwan residents.

¶10. (U) Some of the personnel mechanisms encourage the Travel Agents Association of Taiwan (TAAT) to restrict the activities of its members. TAAT will temporarily stop arranging travel for certain categories of tourists, including tourists from Fujian and Hebei provinces and tourists less than 30 years of age traveling without relatives. Another mechanism calls for an amendment to existing legislation that would grant TAAT the authority to fine its members.

¶11. (U) There are also mechanisms aimed at requiring expanded consultations with the PRC on visitor issues. Taiwan will continue efforts to consult with the PRC on speeding and strengthening the repatriation process. In cross-Strait discussions on tourism, Taiwan will raise travel agent contract and dispute resolution issues.

Agriculture - Protecting Technology and the Taiwan Brand

¶12. (U) The mechanisms that address agricultural issues are the most numerous. Most aim to increase Taiwan's agricultural exports and protect Taiwan producers from PRC imports. Taiwan will attack smuggling of agricultural products from the PRC by increasing the reward for information on smugglers and improving the ability to track the movement of fishing boats. It will also continue to plan and promote consultations with the PRC on fruit exports through the Taiwan External Trade Development Council (TaiTRA) and has developed a database to track Taiwan's agricultural trade. At the same time, Taiwan will seek to promote agricultural exports to other markets.

¶13. (U) In addition, several mechanisms seek to protect Taiwan's geographic indicators from PRC use. Taiwan will

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continue efforts to consult with the PRC on these issues through the Straits Exchange Foundation and WTO. It will assist tea producers to obtain certificates of origin and to pursue legal action in China against PRC producers who illegally label their tea as Taiwan products. Taiwan will also strengthen monitoring and supervision of agricultural investment in the PRC to prevent the illegal transfer of varieties and technology.

¶14. (U) Finally, there are mechanisms concerning the use of PRC crews on Taiwan fishing boats. Taiwan will continue and strengthen the supervision of PRC crews with measures that include a plan to finger print PRC crewmembers. It will also continue to seek consultations with the PRC on fishing labor.

Comment - "Political Examination"

¶15. (C) Most of the mechanisms in MAC's new package will not have a major impact on how Taiwan firms do business for now. Comments from Taiwan officials that the mechanisms do not impose new restrictions are generally true. However, the tone is undeniably restrictive. This document is only about "active management." "Effective opening" is notably absent. Strengthened management mechanisms and improved data enhance Taiwan's ability to stop cross-Strait activity. Mechanisms that call for consultations with the PRC, create the conditions for Taiwan to restrict activity when those consultations fail to occur. There is, however, no clear statement that the government has decided whether impose such restrictions.

¶16. (C) The vague changes to the investment approval process have the greatest potential for economic disruption

and have been the focus of most media attention. This 11-page package of numbered mechanisms will not allay industry complaints that "active management" of investment needs to be clarified. Even after the "policy examination" details are released by June 30, they may still leave investors unsure of the requirements for approval. The "policy examination" may be used as a tool to significantly reduce Taiwan's investment in the PRC. More likely, it is a public relations device that will be used when sensitive cases attract wide attention. It may turn out that a better description would be "political examination." End comment.

YOUNG